URL: https://stvp.stanford.edu/clips/dont-think-too-big

Sequoia Capital partner Alfred Lin advises early-stage founders to focus on understanding their initial set of customers, rather than seeking a huge TAM (total accessible market). Companies should be focused on powerful customer-product fit even if the niche seems small, he finds, and can then adjust the product for the next adjacent market.

Transcript

- When you're at the seed level, 00:00:07,690 and you've decided to commit to this idea that you're on, you have a co-founder, you have a set of people that you've convinced to join you.. Now that you have that, you got some funding, and you're off to the races.. What are the things that are important? I think that you just have to think about like who your customer is and what are your products gonna be.. Because you can't, inside of whatever timeframe you think you are on to build a product, whether it's three months for a prototype, or six months, or a year to get the product to generally available for the public.. That's not that long of a period of time for three to five or six people to build that product.. So you need to sort of focus on what the problem is, what is the problem that you're solving for, for the customer.. But before you say that, even answer that, you have to understand who your customer is gonna be.. And it's easy to say, every single person should be a customer.. Like every single person eventually became a customer for Amazon, but every single customer was not an Amazon customer when they were first in the books business.. We know how few people read in this country..

The number of like readers is quite small.. But they were focused on readers, and people who wanted a better way to find the books and not their local bookstore, or their local Barnes and Nobles.. They wanted a wider selection.. Because these were avid, avid readers.. And the number of avid, avid readers is small.. And is that a good or bad thing? I think it's a funny thing, because you could say the TAM for that is too small.. You could also say the TAM for selling shoes is too small, but it turns out to be a very interesting wedge when nobody else wants to do it.. One of the things that led to the success of Zappos was that everybody thought the idea was crazy, or people thought that the market was too small, or nobody would buy the shoes online.. And I think probably people had the similar reaction to Amazon, just a bookstore, like how big is the book market? And how many avid readers are there who are gonna be your customers? Could probably say the same thing about food delivery, or Uber, or Airbnb.. Many of these problems seem small at the start..

And the focus is to make sure you have avid fans that will allow you to broaden into the larger business.. And it's nice to say today that Airbnb's in the lodging business or the experience business.. But at the beginning, it was a much, sort of much more focused on home sharing.. And the name of the company was Air Bed and Breakfast.. It wasn't about all accommodations.. It wasn't about experiences.. It wasn't about long term stays, and work from anywhere, Lyft from anywhere that it talked about yesterday at the earnings call.. It always starts with a small, very focused idea and, and you gotta focus on those kind of things.. And so customer, and we teach this at Sequoia in our company design program about customer product

fit.. Where you don't even have product market fit yet, just customer and product..

Who are your customers, what's your product for those small set of customers, and how do you make them avid fans? Then after that, you're trying to make the product into product market fit.. And I would challenge people to say that product market fit is a long-term journey.. You're always working on product market fit.. And some companies never get there, and they fail because of that.. But you're, even if you have product market fit, you're constantly tweaking the product for the next adjacent market, or the next supper, or in DoorDash's case, they had Palo Alto working.. Is it that easy to get San Jose working? Turns out that you needed to change a few things for San Jose, and for LA, and for New York, or even San Francisco, even though they had Palo Alto working.. And so you're constantly working on product market fit.. And it's not as simple thing as, oh, you, when you have product market fit, you'll know it.. I think that that's a true statement when something is ripping.. But often things are not that simple..

And it always looks like it's ripping after the fact, not during.. And so what do we ask people to focus on during the process? During the process it's about inputs.. And Amazon has this great sort of thing about don't confuse outputs with inputs.. Board members love to manage from outputs.. Like what do the financials look like? But the financials are the output of all the things that you did for a while, and the building that you did.. And so I often talk about a company in the sense of input throughput, which is the company that you've built, and how quickly you can take the inputs into outputs.. Financials are the ultimate outputs.. But what are your input metrics? And I don't think enough is thought about the inputs.. And the hard part about the inputs, you will always have more input metrics than you have output metrics.. It's easy to rally the company around one, or two, or three financial metrics..

It's a lot harder to do that with inputs.. And I think that that is the crux of the issue, because you should be constantly thinking about inputs, and you should constantly be changing them over the years...